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UNCLAS SECTION 01 OF 02 CANBERRA 000723

SENSITIVE  
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TAGS: [AS](#) [PGOV](#)  
SUBJECT: RUDD GOVERNMENT CALLS ON OPPOSITION LEADER TO  
RESIGN

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¶1. (SBU) Summary: An Auditor-General's report has, as expected, cleared Prime Minister Rudd and Treasurer Swan of improperly assisting a car dealer friend of Rudd's. The report criticized the Treasury Ministry for its administration of a car credit scheme, especially a Treasury official who provided the Opposition with information. The Auditor-General's report is separate from an Australian Federal Police investigation into the related "e-mail affair" which backfired on Opposition Leader Malcolm Turnbull. In late June, police revealed the e-mail to be forged and on August 3 the Treasury official admitted creating it. It has been revealed Turnbull was in contact with the Treasury official prior to the latter raising the "e-mail affair" in a Senate hearing; Turnbull is desperately trying to distance himself from him. The government is demanding Turnbull's resignation. End Summary.

RUDD AND SWAN CLEARED

¶2. (SBU) On August 4, the Auditor-General released his report - "Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance" - which investigated Opposition allegations that the Prime Minister's and Treasurer's offices had provide special treatment to a friend of the Prime Minister's, John Grant, who was seeking finance under a government assistance scheme for car dealers. A key passage in the report is:

--Concerning the issue of whether preferential treatment was given to Mr. Grant's case, the Treasurer spoke briefly with Mr. Grant, at the request of the Member for Oxley. Treasury was aware that the dealer was acquainted with the Prime Minister, but there is no evidence that the Prime Minister was aware of the representation, or that the Treasurer or his Office applied any pressure on Treasury to give this dealer more or better assistance than others.

Additionally, the report concluded that there were weaknesses in Treasury's administration of the scheme, and official Godwin Grech (widely viewed as a Liberal Party sympathizer) may have broken the Public Service Code of Conduct by providing confidential information to the Opposition.

THE E-MAIL AFFAIR

¶3. (SBU) In late June, the Australian Federal Police revealed that an e-mail - apparently between the Prime Minister's Office and Grech - was a fake. The e-mail was the basis for the Opposition's claim that the Prime Minister had mislead parliament over his contact with John Grant. Subsequently, Opposition Leader Malcolm Turnbull has taken a severe drubbing in the polls. The AFP's investigation has not concluded that Grech, despite his admission on August 3, that he created the fake e-mail. Grech, who has subsequently

entered a mental health facility, maintains the Prime Minister's office e-mailed him in relation to John Grant. Grech claims he provided the fake e-mail to Turnbull "under great pressure" prior to the Opposition questioning Grech about it in a June 19 Senate hearing.

#### THE FALLOUT

¶4. (SBU) Turnbull released e-mail correspondence allegedly showing Grech had instigated contact with the Opposition in relation to the fake e-mail and that Grech voluntarily provided a list of questions for the Opposition to ask him in the Senate hearing. Turnbull received Grech's information "in good faith." The Rudd Government has heaped scorn on Turnbull. Cabinet Minister Chris Bowen, undoubtedly speaking with the Prime Minister's blessing, said of Mr. Turnbull that "his position is untenable. He must resign and if he won't resign, the power brokers of the Liberal Party should require Qresign, the power brokers of the Liberal Party should require his resignation." The government is pushing for a Senate Privileges Committee inquiry into whether the Opposition had improperly "coached" a witness. The media is condemning Turnbull for what it calls his lack of contriteness. One commentator wrote: "Australia needs to know what you've learnt, Malcolm, that will lead you to make fewer errors, not more excuses."

#### LIBERAL MPS TURN TO COSTELLO

¶5. (SBU) COMMENT: The only consolation for Turnbull is that the media's main focus was recent widely reported counter-terrorism operation in Melbourne. Nevertheless, it was clearly the day's second biggest story - and Turnbull was hammered. The damage for Turnbull was exacerbated by his refusal to admitting any fault or offering an apology. Some Liberal MPs fear this issue has permanently damaged

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Turnbull's credibility, making him unelectable. What is keeping Turnbull in the leadership is the reluctance of others to lead the Opposition to an almost certain defeat. Former Treasurer Peter Costello - who ruled himself out of leadership contention - remains the Opposition's best hope of minimizing damage at the next election. Unfortunately for Turnbull, "Utegate" is not yet out of fuel.